



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

July 23, 2008

Mark Ferry, Controller
J & R Film Company, Inc., d.b.a. Moviola Education Center
1135 North Mansfield Avenue
Hollywood, CA 90038

Dear Mr. Ferry:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET03-0368 for the period June 30, 2003, through June 29, 2005. We did not receive a response to the draft audit report; therefore, our findings and recommendations remain unchanged.

The audit report discloses \$38,320 in questioned costs, of which \$6,762 is disallowed. Costs questioned but not disallowed represent the monetary value of instances of noncompliance. Questioned costs may become disallowed costs for any future instances of noncompliance, which would require payment of unearned funds and applicable interest to ETP. Details of the findings are explained in the Summary of Audit Results and the Findings and Recommendations Section of the report.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Charles Rufo, Audit Director, at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

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**J & R FILM COMPANY, INC., d.b.a.
MOVIOLA EDUCATION CENTER**

Agreement No. ET03-0368

Final Audit Report

For The Period

June 30, 2003 through June 29, 2005

Report Published July 23, 2008

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AUDITOR'S REPORT

Summary

We performed an audit of J & R Film Company, Inc., d.b.a. Moviola Education Center's (Moviola) compliance with Agreement No. ET03-0368, for the period June 30, 2003, through June 29, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period December 4, 2006, through February 16, 2007, except for Finding No. 5, for which our report is dated March 21, 2007.

The Employment Training Panel (ETP) reimbursed Moviola a total of \$936,283. Our audit supported \$929,521 is allowable. The balance of \$6,762 is disallowed and must be returned to ETP. The disallowed costs resulted from three trainees who did not meet retrainee eligibility requirements, one trainee who did not meet the minimum wage requirement, and three trainees who did not meet post-training retention requirements. We also noted \$31,558 in questioned costs due to training for employees of training agencies. In addition, we noted an administrative finding for inadequate documentation.

AUDITOR'S REPORT (continued)

Background

J & R Film Company, Inc., d.b.a. Moviola Education Center (Moviola) was founded in 1929 by Joe Paskal, and began as a "one-stop shopping" location for film editors. As the entertainment industry continued to move toward computer-based systems, Moviola opened its education center in September 1998. Due to the rapid-changing technology in the entertainment production industry, not only is current technology training crucial for workers to continue employment, but also to help participating employers remain viable in California's economy.

Moviola is eligible to contract with the Employment Training Panel (ETP) as a training agency. This is the second Agreement between Moviola and ETP. Moviola initially conducted interviews and training need assessments with a number of companies in the entertainment production industry who have internal video and multimedia personnel. It was determined that workers needed to be trained in the most current versions of digital software and hardware to improve their chances of continued employment. Thus, this Agreement provided for training in specialized Computer Skills, including DVD production, motion graphics for video, film, and multimedia, and animated and interactive web page design.

This Agreement allowed Moviola to receive a maximum reimbursement of \$958,000 for retraining 500 employees. During the Agreement term, the Contractor placed 486 trainees and was reimbursed \$936,283 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Moviola. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Moviola complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing

AUDITOR'S REPORT (continued)

training, and the 90-day retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$929,521 of the \$936,283 paid to the Contractor under this Agreement is allowable. The balance of \$6,762 is disallowed and must be returned to ETP.
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Views of Responsible Officials	The audit finding was discussed with Paul Stephan, Director, at an exit conference held on March 21, 2007. A draft audit report was issued to the Contractor on June 19, 2008. The Contractor did not respond in writing to the draft audit report.
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The issuance of your final review report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning March 30, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$857.66, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
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AUDITOR'S REPORT (continued)

Records Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Charles Rufo
Audit Director

Fieldwork February 16, 2007, except for Finding No. 5, for which our report is
Completion Date: dated March 21, 2007.

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0368 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

J & R FILM COMPANY, INC., d.b.a. MOVIOLA EDUCATION CENTER

AGREEMENT NO. ET03-0368

FOR THE PERIOD

JUNE 30, 2003 THROUGH JUNE 29, 2005

	<u>Amount</u>		<u>Reference*</u>
Training Costs Paid By ETP	\$ 936,283		
Cost Questioned and Disallowed:			
	<u>Questioned Costs</u>	<u>Disallowed Costs</u>	
Ineligible Trainees	\$ 5,353	\$ 5,353	Finding No. 1
Minimum Wage Requirements Not Met	1,409	1,409	Finding No. 2
Training Provided to a Training Agency's Own Employees	31,558	-	Finding No. 3
Post-Training Retention Requirements Not Met	-	-	Finding No. 4
Inadequate Documentation	-	-	Finding No. 5
Totals	<u>\$ 38,320</u>	<u>\$ 6,762</u>	
Total Costs Disallowed	<u>\$ 6,762</u>		
Training Costs Allowed	<u>\$ 929,521</u>		

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Ineligible Trainees Employment information received from J & R Film Company, Inc., d.b.a. Moviola Education Center (Moviola) and participating employers shows one Job No. 1 and two Job No. 2 trainees were ineligible to receive training. The trainees did not meet employment requirements prior to the start date of training. As a result, we disallowed \$5,353 in training costs [(1 Job No. 1 trainee x \$1,409) + (2 Job No. 2 trainee x \$1,972)].

Unemployment Insurance Code, Section 10201(c) and Exhibit A, Paragraph III of the Agreement between ETP and Moviola requires a trainee be employed full-time by the Contractor or a participating employer for a minimum of 90 days before the trainee begins training. Otherwise, to be eligible a trainee must have been employed at least 20 hours per week for at least 90 days by an eligible employer during the 180-day period preceding the trainee's hire date with the current employer.

Moviola reported hire dates for Trainee Nos. 17, 18, and 19 which were at least 90 days prior to the training start dates. However, Employment Development Department (EDD) base wage information shows these trainees had no prior employment and/or no earnings at least 11 months prior to beginning training. As a result, Trainee Nos. 17, 18, and 19 are not eligible for ETP reimbursement. The table below shows the training start date and reported hire date.

Trainee No.	Job No.	Reported Hire Date	Training Start Date	Code
17	2	03/31/99	08/02/04	A
18	2	09/01/03	01/10/05	B
19	1	11/05/03	05/24/04	A, C
Legend: A - Contractor reported hire date. B - Employer reported hire date. C - Employer reported trainee was not an employee.				

Recommendation Moviola must return \$5,353 to ETP. In the future, the Contractor should ensure that all retrainees meet eligibility requirements before beginning training.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 2 – Trainee employment information shows that one Job No. 1 trainee
Minimum Wage did not meet the minimum wage requirement specified in the
Requirements Agreement. Therefore, we disallowed \$1,409 in training costs
Not Met claimed for this trainee.

Exhibit A, paragraph VII of the Agreement Moviola and ETP states, “Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days or 500 hours within a six-month period... Wages at the end of the 90-day or 500-hour retention period shall be equal to or greater than the wages listed in [the Agreement].” Title 22 California Code of Regulations (CCR), Section 4400(h) stipulates the retention period is subsequent to the completion of training.

The Agreement required Job No. 1 trainees earn a minimum wage rate of \$12.00 per hour following the post-training retention period. The Agreement did not allow for the addition of health benefits to meet minimum wage requirements.

Although Moviola reported Trainee No. 2 received an hourly wage rate of \$12.00 following the post-training retention period, the employer of Trainee No. 2 reported a wage rate of \$9.23 per hour and no health benefits were provided. As a result, this trainee failed to meet the minimum wage requirement specified in the Agreement.

Recommendation Moviola must return \$1,409 to ETP. In the future, Moviola should ensure all trainees meet minimum wage requirements before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Moviola provided training to 15 trainee placements employed by
Training Provided “Moviola Digital.” An ETP moratorium prohibits the funding of
to a Training training for employees of training agencies. Thus, we questioned
Agency's Own \$31,558 in training costs claimed for these trainees (Trainee Nos.
Employees 1, and 3-16).

Unemployment Insurance (UI) Code, Section 10205 (b) (5) (d) states the Panel will fund projects that best meet the priorities identified annually. At the February 24, 2000, Employment Training Panel meeting, the Panel placed a continuing moratorium on future funding for any or all of a training agency's own employees. This applied to all training agencies doing business directly or indirectly with ETP.

J & R Film Company, Inc. dba Moviola Education Center was eligible to contract with ETP as a training agency. During this Agreement, Moviola submitted an online Certification Statement (CS) for an eligibility determination of “J & R Film Company, Inc.” The ETP Analyst approved the Certification Statement stating that the occupations were limited to those directly related to the production and editing aspect of the company and Moviola employees were excluded from the ETP training. Although J & R Film Company and Moviola have differing names and employees with unique job duties, they share the same California Employer Account Number (CEAN). Employment Development Department (EDD) base wage information shows 15 trainee placements were employed by “Moviola Digital” under the same CEAN. Thus, employees of the approved training agency [Moviola] are prohibited from the funding of ETP training regardless of their job occupation.

Recommendation In the future, both ETP staff and Moviola should ensure that any funding limitations approved by the Panel are incorporated into the terms and conditions of the Agreement. Future funding of training for employees of training agencies may result in repayment of unearned funds, plus applicable interest to ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – Trainee employment information shows one Job No. 1 and two Job No. 2 trainees were not employed during the post-training retention period. Since Trainee Nos. 17, 18, and 19 were previously disallowed in Finding No. 1, no additional training costs are disallowed regarding these trainees.

Post-Training Retention Requirements Not Met

Exhibit A, paragraph VII of the Agreement states that each trainee must be employed full-time, at least 35 hours per week with a single participating employer for a period of at least 90 consecutive days or for 500 hours within a six-month period. The retention period shall be completed no later than the last day of this Agreement. Title 22 California Code of Regulations (CCR), Section 4400(h) stipulates the retention period is subsequent to the completion of training.

Employment Development Department (EDD) base wage information does not support any employment for Trainee Nos. 17, 18, and 19 during the reported retention or for 500 hours within a six-month period within the Agreement term. The table below shows Moviola's reported hourly wage rate and retention period.

Trainee No.	Job No.	Hourly Wage Rate	Post-Training Retention Period	Code
17	2	\$12.00	10/21/04 - 01/18/05	A
18	2	\$20.00	02/12/05 - 05/12/05	B
19	1	\$12.50	06/11/04 - 09/08/04	B

Legend:
A - No employer response.
B - Employer reported trainee was not employed during retention.

Recommendation No additional training costs are disallowed in this audit finding. In the future, the Contractor should ensure trainees meet all post-training requirements specified in the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 5 – Moviola was unable to document the proper accounting and receipt
Inadequate of ETP reimbursements. As a result, Moviola did not comply with
Documentation all Agreement requirements.

Title 22 CCR Section 4442(a)(2) states, "Contractor shall maintain and make available applicable financial records which document funds received and disbursed." Paragraph 5 (a) (1) of the Agreement requires the Contractor to make all records related to this Agreement available to ETP during normal business hours.

During the entrance conference, ETP Auditor provided Moviola with a list of necessary records to complete the audit objectives. The list included a request to confirm receipt of several ETP checks issued during the agreement and the 2004 Chart of Accounts to verify other training-related funding sources. Again, during February and March 2007, ETP made follow-up requests to review Moviola's cash receipts and chart of accounts; however, Moviola did not respond to these repeated requests. Thus, ETP could not confirm Moviola's receipt of ETP funds nor verify if other funding sources were obtained by Moviola.

Recommendation In the future, Moviola should maintain and make available to ETP adequate financial records that document the receipt and expenditure of ETP funds. The Contractor's inability to comply with record keeping requirements may result in the denial of future ETP funding requests.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006